SOCIAL SECURITY AND MEDICARE TRUST FUNDS AND THE FEDERAL BUDGET*

Office of Economic Policy
US Department of Treasury
March, 2005

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I. Introduction

Social Security and Medicare provide cash and in-kind benefits to over forty million people each year. These social insurance programs are financed largely through payroll contributions, income taxes on benefits received, premiums, and federal general fund revenues that flow into federal trust funds for each program. The current and future financial status of the separate trust funds is the focus of the annual reports of the Medicare and Social Security Boards of Trustees, a focus necessitated by law that may appropriately be referred to as the "trust fund perspective." The latest reports show that while in the near term the trust funds are in surplus, in the long run the funds will have substantial deficits due to impending demographic shifts and projected growth in per capita health care costs.

In contrast, the federal government primarily uses the *unified budget* concept as the framework for budgetary analysis and presentation in the *Budget of the United States Government*. It represents a comprehensive display of all federal activities, regardless of fund type or budget treatment. This is a broader focus than the trust fund perspective that may appropriately be referred to as the "budget perspective" or "government-wide perspective."

Social Security and Medicare are among the largest expenditure categories of the US federal budget. Together, they account for more than a third of all federal spending and the percentage is projected to rise dramatically for the reasons mentioned above. The trust fund and budget perspectives are both important and appropriate for their intended purposes yet the accounting differences are often misunderstood. Medicare and (to a much smaller extent) Social Security rely on federal general fund revenues for some of their financing, and they currently are credited with large interest payments as well. In the past, these flows were relatively small. But they have increased in recent years, and the expected rapid growth of the two programs renders the trust fund-budget interchange an increasingly important feature of government finance. An understanding of these flows, while at the most basic level just a matter of accounting, is necessary to understanding the nature of the programs' funding shortfalls, and the implications of those shortfalls for the rest of the budget. This paper attempts to elucidate the distinctions between the trust fund and budget perspectives.[1]

[1] The *2004 Financial Report of the United States Government*, US Treasury Department, also describes the budget-trust fund relationship for Social Security, Medicare as well as for other social insurance programs.

The next section summarizes the history and purpose of trust fund accounting, briefly describes the nature of the Social Security and Medicare trust funds and their relationship to the federal debt, and explains the distinction between on- and off-budget accounts. The third section illustrates graphically and numerically (with actual 2004 data) the flow of funds between the trust funds and the rest of the Federal budget, including the connection with overall government debt. The fourth section describes the future outlook of the programs from both the trust fund and budget perspectives and the fifth section concludes.

II. Social Security and Medicare Trust Funds

The Social Security and Medicare trust funds were created to account for monies that are dedicated to the programs. The fund accounts, maintained by the Department of the Treasury, provide a mechanism for keeping track of all program income and disbursements. Accumulated assets of the funds represent automatic authority to pay program benefits (that is, no annual legislation is needed to spend a portion of trust fund assets on these costs). If the trust funds were exhausted, Congressional action would be needed to pay benefits not covered by current program revenues. The Medicare Supplementary Medical Insurance trust fund is somewhat different in this regard, as discussed below.

The accumulated balances in the trust funds also give important signals to policymakers regarding the financial status of the funds. By estimating the future balances of the trust funds, any additional Congressional authorization required to pay future benefits scheduled under current law can also be estimated.

A. Social Security Trust Funds

The Federal Old-Age and Survivors Insurance (OASI) Trust Fund was established on January 1, 1940, as a separate account in the United States Treasury. The Federal Disability Insurance (DI) Trust Fund, another separate account in the United States Treasury, was established on August 1, 1956. The OASI fund pays cash retirement benefits to eligible retirees and their survivors and the much smaller DI fund pays cash benefits to individuals who are unable to work due to medical conditions. Though the events that trigger benefit payments are quite different, both trust funds have the same earmarked financing structure: primarily payroll

contributions and income taxes on benefits. All financial operations of the OASI and DI programs are handled through these respective funds. The two funds are often referred to as simply the combined OASDI Trust Funds.

The primary receipts of these two funds are taxes paid by workers, their employers, and individuals with self-employment income, based on work covered by the OASDI program. Since 1990, employers and employees have each paid 6.2 percent of covered earnings. The self-employed pay 12.4 percent of covered earnings. Contributions are computed on wages and net earnings from self-employment up to a specified maximum annual amount ($90,000 in 2005) that increases each year with economy-wide wages.

Since 1984, up to one half of OASDI benefits has been subject to Federal income taxation. Effective for taxable years beginning after 1993, the maximum percentage of benefits subject to taxation was increased from 50 percent to 85 percent. The revenue from income taxes on 50 percent of benefits is allocated to the OASDI Trust Funds and the rest is allocated to the Hospital Insurance (HI) Trust Fund.

That portion of each trust fund not required to pay benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government. The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. Although the special issues cannot be bought or sold in the open market, they are redeemable at any time at face value and thus bear no risk of fluctuations in principal value due to changes in market yield rates. Interest on the bonds is credited to the trust funds and becomes an asset to the funds and a liability to the rest of government (specifically the U.S. Treasury Department).

B. Medicare Trust Funds

The Medicare program, created in 1965, also has two parts, each with its own trust fund: the Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) Trust Funds.[2] HI (referred to as Part A) pays for inpatient acute hospital services and major alternatives to hospitals (skilled nursing services, for example). Until last year, SMI had one major account (referred to as Part

B) that pays for hospital outpatient services, physician services and assorted other services and products. On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) that, beginning in 2004, added to the SMI Trust Fund a second major account, referred to as Part D. Part D is a voluntary prescription drug benefit program that is expected to have a major impact on the operations and finances of Medicare.[3]

Like OASDI, HI is financed primarily by payroll contributions. Employers and employees each pay 1.45 percent of all earnings (no taxable earnings cap), while self-employed workers pay 2.9 percent of all of their net earnings. Other income includes a small amount of premium revenue from voluntary enrollees, a portion of the federal income taxes that beneficiaries pay on Social Security benefits, and interest credited on the U. S. Treasury securities held in the HI trust fund.

For Part B of SMI as well as for Part D beginning in 2006, transfers from the general fund of the Treasury represent the largest source of income, covering about 75 percent of program costs in each account. Beneficiaries pay monthly premiums that currently finance about 25 percent of Part B costs. Under MMA, the percentages will change somewhat. Beginning in 2007 and phased in over five years, Part B premiums will increase for beneficiaries with incomes above $80,000 ($160,000 for couples), thresholds that will be indexed to inflation each year. Premiums for Part D, subsidized for low-income enrollees, are estimated to cover just over 25 percent of Part D costs, on average.

As with HI, interest due on the U. S. Treasury securities held in the SMI trust fund is credited to the fund, although in the case of SMI, this is quite small as it is only needed as a one-year contingency for Part B expenditures. Because annual appropriations for Part D are flexible, depending on expected expenditures, a contingency fund is not needed.

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[2] On the political origins of the bifurcated financing structure for Medicare see Eric Patashnik, *Putting Trust in the US Budget*, Cambridge University Press, 2000.

[3] The 2003 law also creates a Medicare Advantage program to replace the Medicare+Choice program. The Federal Government will assume some of the costs of providing prescription drug coverage to people dually eligible for Medicare and Medicaid. The legislation also includes provisions not related to the prescription drug benefit. It includes increases in Medicare provider reimbursements, an income-related Medicare Part B premium, and an expansion of tax-deductible health savings accounts. A more complete description of the new Medicare provisions is contained in the 2005 Medicare Trustees' Report.

C. Trust Funds and Federal Debt

When a trust fund invests in U.S. Treasury securities, it has, in effect, loaned money to the rest of the government. The loan either reduces what the other government fund has to borrow from the public if the unified budget is in deficit or, if the budget is in surplus, reduces the amount of publicly held debt (see subsection D and section III). The value of the securities held is recorded in the budget as "debt held by government accounts" and represents debt owed by one part of the government to another. Just as with marketable securities (securities sold to the public) a maturity date is set, interest is accrued at established rates,[4] and the securities count as part of the overall federal debt that is subject to a ceiling set by Congress. The interest earned on the internal loan is credited to the trust fund accounts in the form of additional Treasury securities. As such, the securities constitute a liability for the Treasury as the loan must be repaid when the trust funds need to redeem securities in order to make benefit payments. As with marketable bonds, these special Treasury securities are backed by the full faith and credit of the U.S. government.

III. Cash and Accounting Flows between Trust Funds and the Rest of the Federal Budget

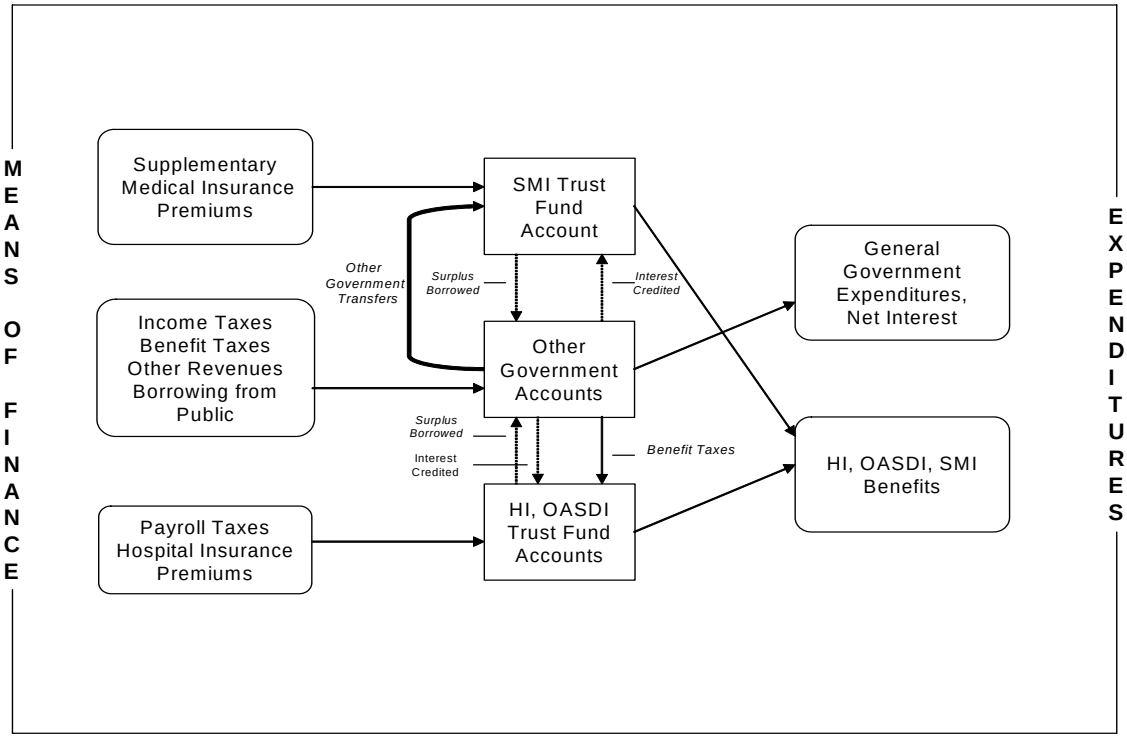
This section will describe in detail the concepts that connect the trust funds to the Federal budget and illustrate the flow of funds between the trust funds and other government accounts.

A. Nature of Flows

Figure 1 shows a simplified graphical depiction of the interaction of the Social Security and Medicare Trust Funds with the rest of the federal budget. The boxes on the left show sources of funding, those in the middle represent the trust funds and other government accounts (of which the general fund is a part) into which that funding flows, and the boxes on the right show simplified expenditure categories. The figure is intended to explain how the various sources of program revenue flow through the budget to beneficiaries. The general approach is to group revenues and expenditures that are linked specifically to Social Security and/or Medicare

[4] The rates for these non-marketable securities are based on an average of rates on outstanding medium- and long-term marketable Treasury securities.

Figure 1
Social Security, Medicare, and Governmentwide Finances



separately from those for other federal programs. For ease of understanding, these other federal programs are referred to here as *other government*.

As noted in section II, each of the trust funds has its own sources and types of revenue. With the exception of general fund transfers to SMI, each of these revenue sources are earmarked specifically for the respective trust fund, and cannot be used for other purposes. Much of the funding for the rest of government, in contrast, is not dedicated to a specific purpose.[5] For instance, personal income taxes go into the general fund of the Treasury and are drawn down for any government program for which Congress has approved spending. A rough analogy would be that the general fund is like a checking account, from which purchases of all sorts can be made, while the trust funds are like a retirement savings account, which has specific

[5] A number of other programs also have dedicated revenues in the form of taxes and fees and there are a large number of earmarked trust funds in the federal budget. Trust fund receipts from the public account for about forty percent of total government receipts with the Social Security and Medicare Trust Funds accounting for about two-thirds of those receipts. For further discussion see *Federal Trust and Other Earmarked Funds*, GAO-01-199SP, January, 2001. In the figure and the discussion that follows, we group all other programs, including other earmarked trust fund programs and the general fund (accounts for receipts not earmarked by law), under "Other Government Accounts" to simplify the description and maintain the focus on Social Security and Medicare.

rules for withdrawals. From the boxes on the left the arrows represent the flow of revenues into the trust funds and into other government accounts.

The Medicare SMI trust fund is grouped separately in the center column from the two Social Security trust funds (OASI and DI) and the Medicare HI trust fund to highlight the unique financing of SMI. SMI receives large transfers from the general fund of the Treasury. (This transfer is represented by the arrow marked *General Revenue Transfers* in the diagram.) As noted above, these funds make up roughly three-fourths of SMI program expenses. While the other trust funds also receive transfers from the general fund (mainly from taxes on benefits), in the case of SMI the size of the transfers depends on how much the program spends, not on how much revenue comes into the Treasury. And all the non-dedicated sources of federal revenue contribute to the transfer: personal and corporate income taxes, custom duties, excise taxes, etc. If non-dedicated revenues become insufficient to cover both the mandated transfer to SMI and expenditures on general government programs Treasury would have to borrow to make up the difference. In the longer run, if transfers to SMI are increasing — and as shown in the Medicare Trustees Report and Figure 4 below, they are projected to increase significantly in coming years — then Congress must borrow, raise taxes, cut other government spending, or reduce SMI benefits.

As described in Section II, interest is credited to the trust funds when the excess of program income over expenses is loaned to the general fund. The vertical lines labeled *Surplus Borrowed* represent these flows from the trust funds to the other government accounts. These loans reduce the amount that the general fund has to borrow from the public to finance a deficit (or likewise increase the amount of debt paid off if there is a surplus). But the general fund has to credit interest on the loans from the trust fund programs, just as if it borrowed the money from the public. These flows are indicated in Figure 1 by the vertical arrows labeled *Interest Credited*. These interest credits increase trust fund income exactly as much as they increase credits (future obligations) in the general fund (part of other government accounts). So from the standpoint of the federal budget as a whole, these interest credits are a wash. Of course, in the future, money to honor the interest credits must still be raised, through taxes, spending cuts or borrowing from the public.

It is important to understand the additional implications of this borrowing from the trust funds, beyond the interest credits to the trust funds. When the trust funds loan excess revenue to the general fund, they in turn receive additional authority to spend on benefits and other program expenses. (This additional authority takes the form of an increase in the assets in the trust fund and an increase in liability for the general fund.) The general fund, in turn, has taken on the obligation of repaying the principal of those loans with interest when trust fund income falls below expenditures—the loans will be called in and the general fund will have to reduce other spending, raise taxes or borrow more from the public to make the payments to the trust funds.

B. Actual Flows for Fiscal Year 2004

The link between the trust fund and budget perspectives can be illustrated with actual dollar amounts for fiscal year 2004, as shown in Table 1. The first three columns show all revenues and expenditures for the two social insurance programs and the fifth column shows revenues and expenditures for other government programs. The final column is the sum of the preceding four columns. Note that the sums of transfers and interest credits to the trust funds are negative entries under 'Other Government' and are thus offsetting when summed for the final column. These two intragovernmental transactions are key to the differences between the two perspectives.

The *trust fund perspective* is captured in each of the three trust fund columns that contain data from the respective 2004 Trustees' Reports. For HI, revenues from the public plus revenues/credits from other government ($165.2 + $15.6) exceeded total expenditures to the public by $13.8 billion in 2004, as shown at the bottom of the first column. This annual surplus was added to the accumulated HI trust fund balance (not shown) and thus reduces the unfunded obligations for the program while establishing an equivalent budget commitment to satisfy those obligations in future years. For SMI, total revenues of $126.8 billion ($30.3 + $96.5), including $94.5 billion in non-interest transfers from other government accounts, fell short of total expenditures by $7.7 billion. Transfers to the SMI program from other government accounts amounting to about seventy-five percent of program costs are obligated under current law and therefore appropriately viewed as revenue from the trust fund perspective. For OASDI, total revenues of $646.6 billion ($560.4+$86.2) exceeded total expenditures of $495.5 billion by $151.1 billion. In sum, from the trust fund perspective, HI and OASDI had significant annual

Table 1
Annual Revenues and Expenditures for Medicare and Social Security Trust Funds and the Total Federal Budget, Fiscal Year 2004 (in billions of dollars)

Revenue and Expenditure Categories	Trust Funds				Other Government	Total[1]
	HI	SMI	OASDI	Combined		
Revenues from public:						
Payroll and benefit taxes	$162.2	--	$560.4	$722.6	--	$722.6
Premiums	3.0	$30.3	--	33.3	--	33.3
Other taxes and fees	--	--	--	--	$1,124.1	1,124.1
Total	165.2	30.3	560.4	755.9	1,124.1	1,880.0
Total expenditures to public[2]	167.0	134.5	495.5	797.0	1,495.0	2,292.0
Net Results for Budget Perspective	**-1.8**	**-104.2**	**64.9**	**-41.1**	**-370.9**	**-412.0**
Revenues from other Government accounts:						
Transfers	0.6	94.5	--	95.1	-95.1	0
Interest credits	15.0	1.9	86.2	103.1	-103.1	0
Total	15.6	96.5	86.2	198.3	-198.3	0
Net Results for Trust Fund Perspective	**13.8**	**-7.7**	**151.1**	**157.2**	**n/a**	**n/a**

1This column is the sum of the preceding two columns and shows data for the total Federal Budget. The figure $412 was the total Federal deficit in fiscal year 2004
[2]The OASDI figure includes $3.8 billion transferred to the Railroad Retirement Board for benefit payments.
Note: "n/a" indicates not applicable.

surpluses and SMI had a small annual deficit in 2004 for a net positive balance of $157.2 billion ($13.8-$7.7+$151.1).

From the *government-wide* (*budget*) perspective only earmarked revenues received from the public – taxes on payroll and benefits plus premiums -- and expenditures made to the public are important for the final balance. For HI, the difference between such revenues ($165.2 billion) and total expenditures made to the public ($167.0 billion) was a $1.8 billion shortfall in 2004,

indicating that HI reduced overall budget balance in that year. For the SMI account, revenues from the public (premiums) were relatively small, representing about a quarter of total expenditures made to the public in 2004. The difference, -$104.2 billion, resulted in a net draw on the overall budget balance in that year. For OASDI, the difference between revenues from the public ($560.4 billion) and total expenditures was $64.9 billion in 2004, indicating that OASDI had a positive effect on the overall budget in that year. In sum, from the budget perspective, HI had a deficit, OASDI had a surplus, and SMI made a substantial draw on the budget in 2004, contributing $41.1 billion (-$1.8-$104.2+$64.9) to the 2004 unified budget deficit of $412.0 billion.

Table 2 illustrates the relationship between the trust funds and federal debt. Total trust fund assets are a component of gross federal debt. An increase in trust fund assets in 2004 of $157.2 billion is the amount by which the trust funds added to gross federal debt.

Table 2
Social Security and Medicare Trust Funds and the Federal Debt
(billions of dollars)

	HI	SMI	OASDI	Combined
Trust Funds				
Assets at the end of FY2003	$251.1	$24.8	$1,484.3	$1,760.2
+ Net results for trust funds (Table 1)	13.8	-7.7	151.1	157.2
Assets at the end of FY2004	264.9	17.1	1,635.4	1,917.4
Federal Debt				
FY 2003 debt held by public			$3,913.4	
+ FY2004 unified deficit (Table 1)			412.0	
*+ Other financing**			-30.0	
= FY2004 debt held by public			**4,295.4**	
+ FY2004 debt held by trust funds			1,917.4	
+ FY2004 debt held in other government accounts			1,141.9	
= FY2004 gross federal debt			**7,354.7**	

*Other financing includes changes in US Treasury cash balances, checks outstanding, compensating balances and other miscellaneous items.

IV. Future Obligations of the Trust Funds and the Budget

A. Separate Funds

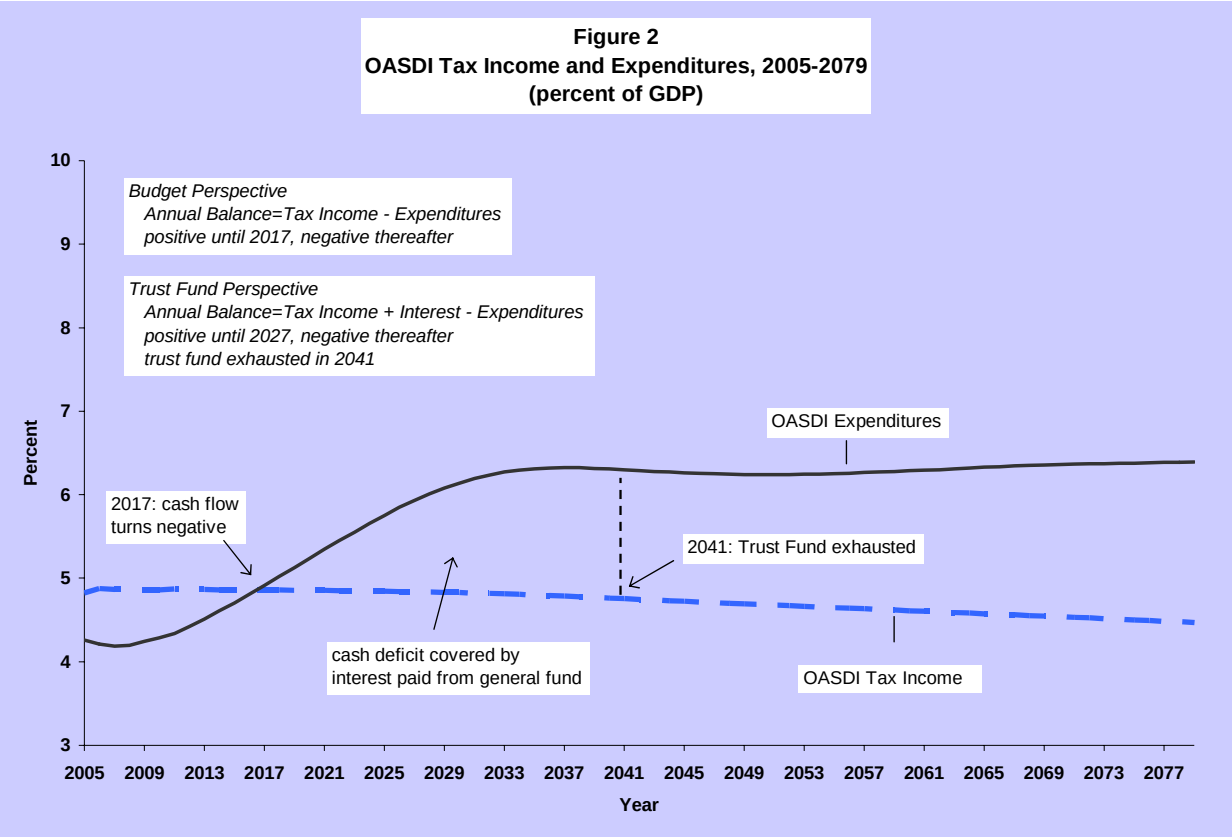
The trust fund perspective focuses on the financial status of each fund separately. The status is quite different for each of the funds, with varying impacts on the federal budget. For example, the 2005 OASDI Trustees' Report projects that cash-flow deficits will begin in 2017, total income (including interest) falls below expenditures in 2027, and the trust fund will be exhausted in 2041. From the trust fund perspective those dates are important as they indicate that, beginning in 2017, interest on assets (honored by the general fund) will be needed to pay full benefits and when the fund is exhausted in 2041 benefits can no longer be paid in full.[6]

The effect of the OASDI program on the budget occurs far sooner, however, as illustrated in Figure 2. As described earlier, while OASDI surpluses are rising, general fund borrowing or tax revenue needs are reduced relative to what would otherwise be necessary to fund a given level of expenditures in other government accounts. As early as 2007, however, the surpluses as a percent of GDP begin to decline and fall sharply thereafter, with expenditures rising above income beginning in 2017.

Thus, in order to maintain a given level of real expenditures in other government accounts, non-dedicated taxes (like the income tax) would have to be raised, or borrowing from the public increased, to make up for the reduction in the OASDI Trust Funds' cash-flow surpluses.

This effect on the budget will increase rapidly. The OASDI expenditure/GDP ratio (solid line in Figure 2) begins to increase in 2008, owing to the retirement of the baby boom generation, and rises by a full percentage point over the subsequent twelve years (i.e., expenditures are growing significantly faster than GDP) while the income ratio is relatively constant. Although the OASDI surpluses contribute positively to the unified budget until 2017, they are doing so at a rapidly declining rate after 2007. And after the expenditure ratio rises above the income ratio in 2017, the negative balances will add to a unified budget deficit (or reduce a surplus) at a rapidly increasing rate.

[6] OASDI asset redemptions are projected to begin in 2027.



The picture is similar for the HI Trust Fund though, as seen in Figure 3, according to the 2005 Medicare Trustees' Report, cash flows are already negative in 2005 and the HI Trust Fund will be exhausted in 2020. Figure 3 illustrates that, while the income ratio is relatively flat, the expenditure ratio rises throughout the projection period. From the trust fund perspective, full benefits can be paid for another fifteen years. From a unified budget perspective the HI cash balances will have a rapidly growing negative effect that started in 2004.

The distinction between trust fund and budget perspectives is most pronounced in the case of SMI (Figure 4). As described earlier, the portion of SMI expenditures financed by general revenues (Part B and Part D) is adjusted each year to make up for the difference between premium income (also adjusted every year) and total expenditures—as expenditures grow, so does the general revenue transfer. From the perspective of the trust fund, SMI is always "fully funded" (that is, the trust fund will never run out, as long as there is money in the Treasury to cover expenditures), whereas, from the perspective of the budget, SMI draws significant transfers that will continue to grow with the growth in Medicare expenditures.

Figure 3
HI Tax and Premium Income and Expenditures, 2005-2079
(percent of GDP)

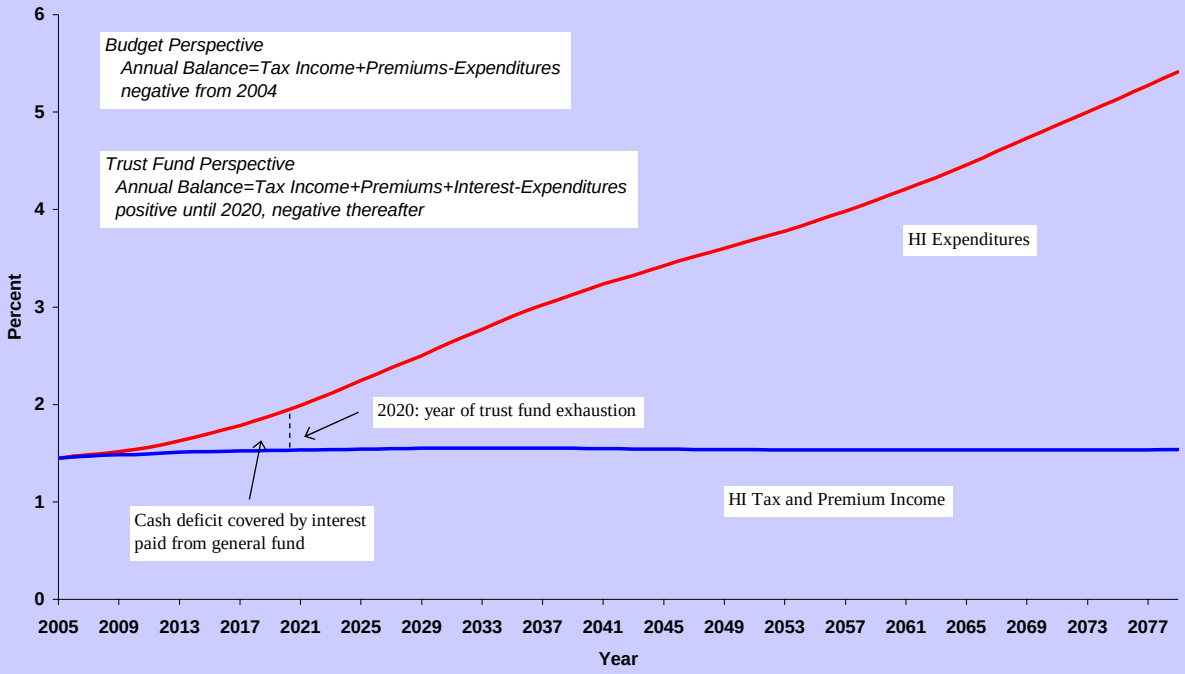
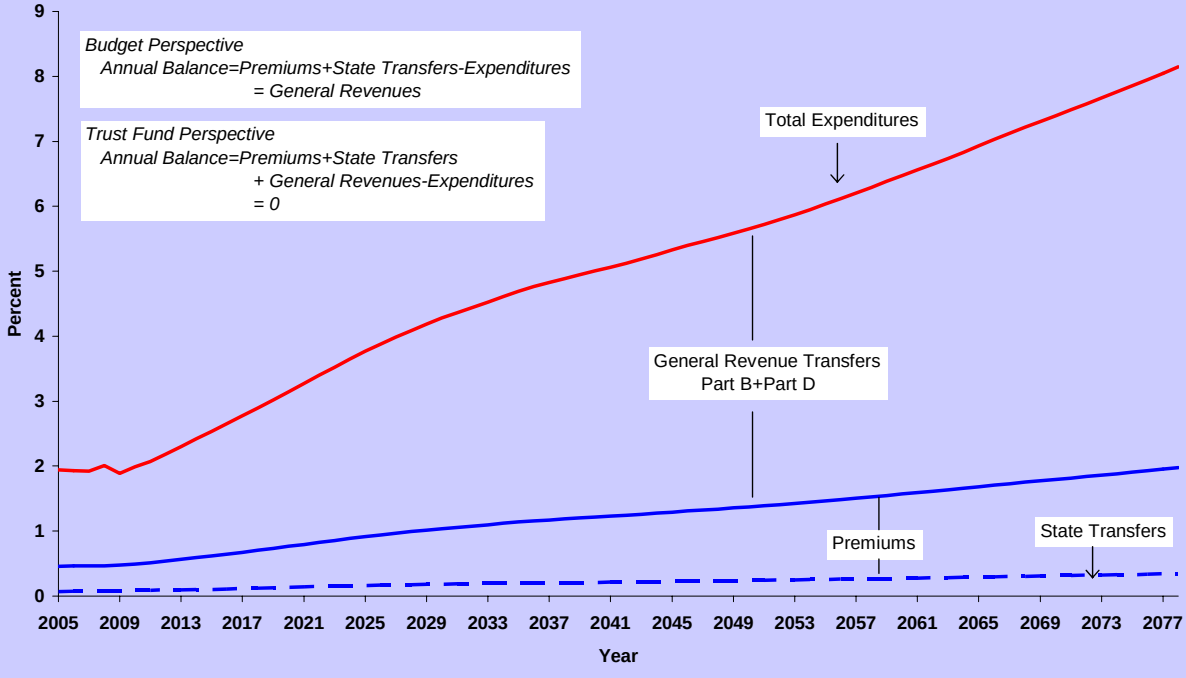


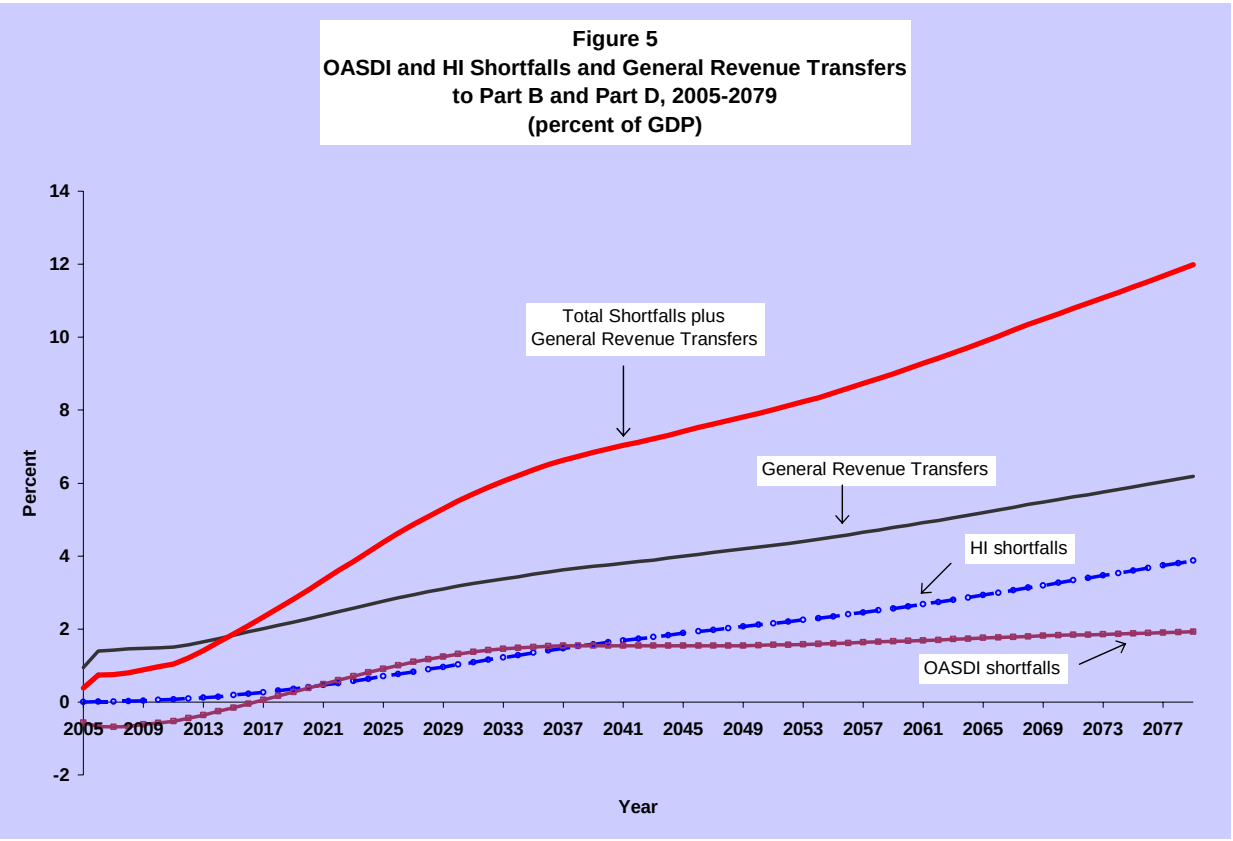
Figure 4
SMI Income and Expenditures, 2005-2079
(percent of GDP)



B. Combined Funds

The budget perspective is also concerned about the net effect of the combined trust funds. As described in section III, what matters for the unified budget is the difference between income received from the public and expenditures paid to the public. Figure 5 brings together those differences (relative to full scheduled benefits) for all three funds as they are projected to develop over the next seventy-five years. The figure shows projected shortfalls (tax income less expenditures, shown as positive numbers) for OASDI and HI as well as general revenue transfers to SMI for the period 2005-2079 as a percent of GDP. The GDP scale provides an indication of the capacity of the national economy to sustain the three programs. The 'Total' line shows that the sum of the three components are projected to exceed 13 percent of GDP by 2079.

Figure 5
OASDI and HI Shortfalls and General Revenue Transfers to Part B and Part D, 2005-2079 (percent of GDP)



Clearly, the pressure on the general fund to honor scheduled Social Security and Medicare benefits will grow dramatically and rapidly. Over the next twenty-five years total shortfalls plus general revenues transfers are projected to grow five percentage points of GDP. In order to pay for these additional scheduled costs either taxes will have to increase sharply, other government

programs will have to be cut to a fraction of their current levels, or increased borrowing will have to take place. Note that, from the budget perspective, the combined funds already have a net draw on the unified budget.

C. Present Values of Revenue and Cost Components

1. 75-Year Horizon. Table 3 shows discounted present values of the 75-year financial projections discussed above. Present values recognize that a dollar next year is worth less than a dollar today, because a dollar today could be saved and earn a year's-worth of interest. To create a present value, future amounts are thus reduced using an assumed interest rate, and those reduced amounts are summed. The resulting present value is the amount that would have to be put in the bank today at the assumed interest rate to fund the future cash flows.

For HI, scheduled revenues over 75 years from payroll and benefit taxes are estimated to be $9.4 trillion in present value and scheduled costs to the public (primarily benefit payments) amount to $18.3 trillion.[7] From a budget perspective, the net unfunded obligation is -$8.8 trillion in present value. From the trust fund perspective, the existing trust fund is added to give a net unfunded obligation of -$8.6 trillion in present value.

For SMI, revenues from the public are projected to be $6.8 trillion and costs to the public over $27.8 trillion in present value. From the budget perspective, the unfunded obligation is $21.0 trillion in present value. From the trust fund perspective, the $21 trillion is a statutory revenue source that leaves the trust fund with no unfunded obligation. For OASDI, over the next seventy-five years revenues from payroll taxes are estimated at $29.5 trillion in present value and costs to the public at $35.2 trillion in present value, resulting in net obligations of -$5.7 trillion. From the trust fund perspective, the net obligation is reduced by the $1.7 trillion trust fund for an unfunded obligation of -$4.0 trillion.

Table 3 shows that, for the three programs combined, scheduled revenues from the public less scheduled expenditures to the public amounts to -$12.6 trillion in present value. From the

[7]When referring to unfunded obligations for HI and OASDI, it is important to recognize that there is no provision under current law to address the projected financial deficits once trust fund assets are depleted (2020 for HI and 2041 for OASDI). For this reason we refer to "scheduled" receipts and costs.

Table 3
Present Values of Revenue and Cost Components of
75-year Open Group Obligations
HI, SMI, and OASDI
($trillions, as of 1/1/2005)

	HI	SMI	OASDI	Combined
Revenues from public:				
Payroll and benefit taxes	$9.4	--	$29.5	$38.9
Premiums and State Transfers	0	6.8	--	6.8
Total cost to public	18.3	27.8	35.2	81.2
Net Results for Budget Perspective				
Revenues from public less total cost to public	-8.8	-21.0	-5.7	-35.5
Net Results for Trust Fund Perspective				
Transfers from general fund	0.0	21.0	0.0	21.0
Trust Fund on 1/1/2005	0.3	0.0	1.7	2.0
Revenues form public plus general revenues plus trust fund less total costs to public	-$8.6	$0.0	-$4.0	-$12.6

budget (or government-wide) perspective this is the amount of additional resources, beyond the $45.7 trillion in payroll and benefit taxes and premiums from the public, that would be needed to pay all scheduled costs over 75 years. From a trust fund perspective, the value of existing trust fund assets for OASDI and HI ($2.0 trillion) and the value of the general revenue transfer (-$21 trillion) are viewed as assets of or income to the programs. From that perspective, the picture is only modestly different from the budget perspective for OASDI and HI when the existing trust fund assets are accounted for but markedly different for SMI. For the latter, general revenue transfers are a dedicated source of income that ensures the program is in continuous financial balance.

2. Infinite Horizon. The 75-year horizon represented in Table 3 is consistent with the primary focus of the Social Security and Medicare Trustees' Reports. Yet, a 75-year projection is

incomplete. For example, when calculating unfunded obligations, a 75-year horizon includes revenue from some future workers but only a fraction of their future scheduled benefits. Therefore, the Trustees Reports also provide an alternative perspective that provides estimates of net obligations over the infinite horizon. The estimate are shown in Table 4 for the three major programs represented in Table 3. Note that only the net obligations (income less expenditures) are shown as the separate revenue and cost components are not available.

From the budget or Governmentwide perspective, the first line of Table 4 represents the value of resources needed to finance each of the programs into the infinite future. The total resources needed for all the programs sums to over $78 trillion in present value terms. This need can be satisfied only through increased borrowing, higher taxes, reduced program spending, or some combination.

The second line shows the present value of general revenue transfers to the SMI program (Part B + Part D) as of January 1, 2005 and is equal (but opposite in sign) to the gap between premium income and expenditures shown in line 1. From the trust fund perspective, because general revenues are a source of income to the SMI program, there is no funding gap.

The third line shows the value of the trust fund at the beginning of 2005. For the HI and OASDI programs this represents, from the trust fund perspective, the extent to which the programs are funded. From that perspective, when the trust fund is subtracted, an additional $22.7 trillion and $11.1 trillion, respectively, are needed to sustain the two programs into the infinite future.

In comparison to the analogous 75-year number in Table 3, extending the calculations beyond 2079 captures the full lifetime benefits and taxes and premiums of all past, current, and future participants. The shorter horizon understates financial needs by capturing relatively more of the revenues from current and future workers and not capturing all of the benefits that are scheduled to be paid to them.

Table 4
Present Values of Income less Expenditures through the Infinite Horizon for HI, SMI, and OASDI (trillions of dollars, as of 1/1/2005)

	HI	SMI	OASDI	Total
Net Results for Budget Perspective				
Revenues from public less costs to public through the infinite future	-$23.0	-$42.7	-$12.8	-$78.5
Net Results for Trust Fund Perspective				
Transfers from General Fund	0.0	42.7	0.0	42.7
Trust fund on 1/1/2005	0.3		1.7	2.0
Revenues from public plus general revenues plus trust fund less total costs to public	-22.7	0.0	-11.1	-33.8

Source: 2005 OASDI and Medicare Trustees' Reports.

V. Conclusion

The trust fund perspective relates to an evaluation of the financial status of each individual trust fund, that is, a determination of whether the fund has sufficient revenues and assets to pay promised benefits and administrative expenses. Trust fund assets provide the statutory authority to make such payments without the need for an appropriation from Congress. In the case of OASDI, for example, the 2005 Trustees Report projects that this authority would allow full benefit payments until 2041.

The budget or government-wide perspective is a comprehensive presentation of all federal financial activities, of which Social Security and Medicare are crucial components. Financial flows between the public and the federal government are what matters, as flows between accounts within the budget cancel out in the final balance. Trust funds are merely accounting devices from this perspective. The budget evaluates the relationship between dedicated revenues (payroll and benefit taxes and premiums) from the public and the benefits promised to the public

under current Social Security and Medicare program rules. In the case of OASDI, for example, dedicated revenues fall short of benefit expenditures beginning in 2017 and the difference between those revenues and expenditures begins to decline in 2008.

Both perspectives share concerns over impending demographic changes and continued rapid growth in health care costs that will place increasing stress on finances for the Social Security and Medicare programs. But it is important to recognize that the stress signals that emanate from a trust fund analysis are not indicative of those signals from a Federal budget analysis. The differences are most dramatic in the case of the SMI program.